

## MEMORANDUM



TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Dennis C. Prouty

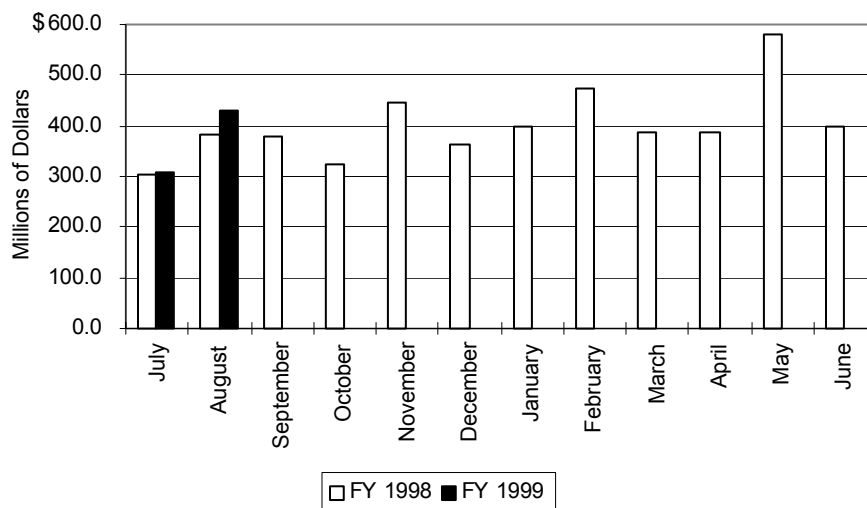
DATE: September 1, 1998

### General Fund Receipts Through August 31, 1998

The attached spreadsheet represents total FY 1999 General Fund receipts, with comparable figures for FY 1998. These can be compared to the latest FY 1999 estimate (\$4.933 billion) set by the Revenue Estimating Conference (REC) on April 10, 1998. The estimate represents an increase of \$101.8 million (2.1%) compared to FY 1998. Receipts for FY 1998 were 3.9% and did not meet the REC estimate of 4.3%.

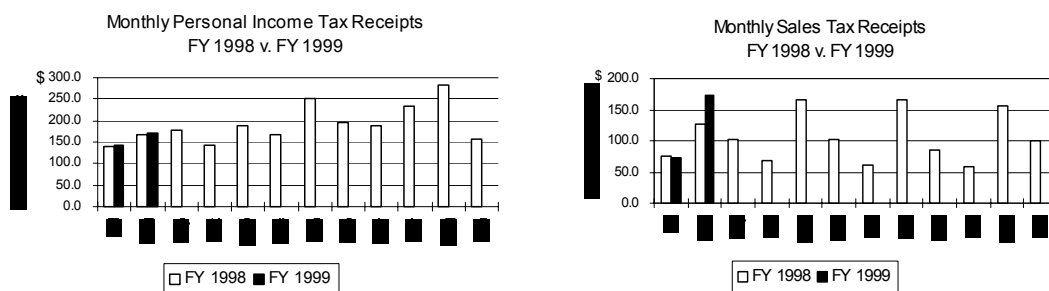
The FY 1999 REC estimate does not include adjustments for the bills passing the 1998 General Assembly. The net effect of these bills is a reduction in FY 1999 General Fund revenues of approximately \$139.2 million. The largest of these is the Omnibus Tax Bill (\$85.6 million) which increased the income tax personal exemption, expanded the State capital gains exclusion, raised the pension income exclusion, expanded the tuition tax credit, provided a sales tax exemption for hospitals, and increased the Elderly and Disabled Tax Credit. Although all law changes for FY 1999 have been incorporated in the General Fund balance sheet, they will not be included in the REC estimate until the September 18 meeting.

Monthly General Fund Receipts - FY 1998 v. FY 1999



## FY 1999 Compared to FY 1998

Fiscal Year 1999 revenue growth increased by \$51.5 million (7.5%) compared to FY 1998. This is above the current REC estimate of 2.1% for FY 1999 primarily due to a timing effect from sales tax receipts.



**Gross personal income tax** revenues received in August were \$3.0 million (1.8%) greater than August 1998. Although FY 1998 withholding payments exhibited strong growth, the effect of the 10.0% income tax cut can clearly be seen in FY 1999 withholding tax receipts. The August growth rate was negative, with withholding payments decreasing by 0.1% compared to August 1997. Year-to-date withholding receipts are \$6.3 million (2.2%) below the FY 1998 level. This trend is expected to continue through the first seven months of FY 1999, until the full year's effect of the 10.0% income tax cut is experienced.

Estimate payments showed nearly flat growth in August, posting a gain of \$57,000 (2.6%) compared to August 1997. Year-to-date growth in estimate payments stands at \$15.3 million (57.5%) due to exceptionally strong July growth. Estimate payments are expected to moderate after the first of the year because of the recent losses in the stock market and the strong growth experienced in January 1998. Gains in estimate payments can be attributed to both the strong year in the stock market and the federal capital gains tax rate change.

The REC FY 1999 income tax estimate of \$2.349 billion represents a projected increase of 2.6% compared to FY 1998.

**Sales tax** receipts in August increased above last year's level by \$45.1 million (35.5%). Nearly all of the monthly gain is due to the change in the method of local option tax payments. As directed by HF 729 (Local Option Taxes Administration Act), the Department of Revenue and Finance began making monthly rather than quarterly distributions. Because of passing the old quarterly payment date in August 1997, August 1998 receipts are approximately \$31.7 million greater than otherwise would be the case. This timing factor explains most of the monthly and year-to-date growth in sales tax and overall revenues. The REC estimate for FY 1998 sales tax receipts is \$1.331 billion, which represents an increase of 4.6% compared to FY 1998.

**Corporate income tax** receipts in August were \$853,000 (7.7%) higher than August 1998. On a dollar basis, estimate payments were the primary cause of positive growth for the month. Estimate payments received in August were \$1.1 million (12.5%) greater than August 1997. Year-to-date corporate income tax payments are \$297,000 (1.2%) above the FY 1998 level.

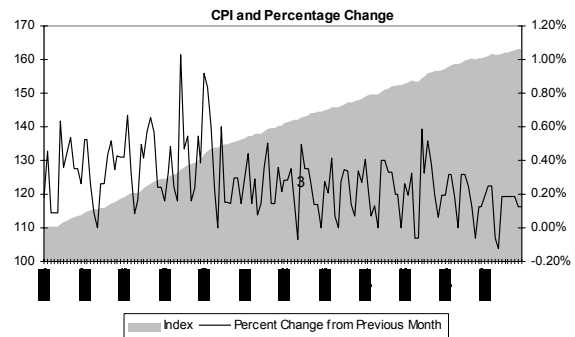
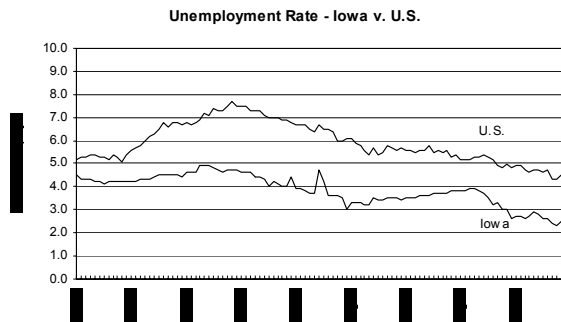
The April REC projected FY 1999 corporate income tax receipts would total \$310.0 million, an increase of \$19.3 million (6.6%) compared to FY 1998.

**Racing and gaming** receipts in August were \$2.1 million (29.2%) greater than August 1998. All racing and gaming receipts in excess of \$60.0 million are deposited in the Rebuild Iowa Infrastructure Fund. As a result, activity in these accounts has little direct impact on the General Fund because there is little doubt that receipts will exceed the \$60.0 million threshold. The April REC estimated that \$84.9 million from this source would be deposited to the Infrastructure Account in FY 1999.

## Status of the Economy

The seasonally adjusted percent unemployed for the State in July remained unchanged from the 2.5% rate in June. The unemployment rate a year ago was 2.6%. Iowa's total July employment registered 1,526,900, down from June's level of 1,534,700. The number of unemployed persons in Iowa stood at 39,600 in July, which is down from the June's level of 39,800. The U.S. unemployment rate remained unchanged in July at 4.5%.

Consumer prices in July increased 0.1%. The Consumer Price Index (CPI-U) through July 1998 was 163.2 (1983=100), which is 1.7% higher than one year ago. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through July 1998.



Information related to State General Fund receipts is available electronically through the Fiscal Bureau's Electronic Publishing of Information System (EPI). If you have questions regarding this service, you may contact Glen Dickinson (515-281-4616) or Larry Sigel (515-281-4611).

GENERAL FUND RECEIPTS - FY 1999 vs. FY 1998						ESTIMATED GENERAL FUND RECEIPTS in millions of dollars			
July 1, 1998, through August 31, 1998, in millions of dollars						FY 98 Actual Compared to FY 99 REC Estimate			
	FY 1998	FY 1999	Year to Date		August	Actual	Estimate	% CHANGE	
			FY 1998	FY 1999	% CHANGE	FY 1998	FY 1999		
Personal Income Tax	\$ 308.3	313.8			1.8%	\$ 2,288.4	\$ 2,349.0		2.6%
Sales Tax	203.4	244.7			20.3%	1,271.8	1,330.8		4.6%
Use Tax	49.1	51.5			4.9%	243.0	262.0		7.8%
Corporate Income Tax	25.1	25.4			1.2%	290.7	310.0		6.6%
Inheritance Tax	18.8	17.3			-8.0%	109.8	66.6		-39.3%
Insurance Premium Tax	0.0	0.4			n/m	108.9	110.0		1.0%
Cigarette Tax	16.3	15.7			-3.7%	94.6	97.0		2.5%
Tobacco Tax	1.1	1.1			0.0%	6.1	6.6		8.2%
Beer Tax	2.5	2.5			0.0%	12.7	12.7		0.0%
Franchise Tax	3.6	2.8			-22.2%	36.4	38.5		5.8%
Miscellaneous Tax	1.4	1.0			-28.6%	1.3	1.3		0.0%
Total Special Taxes	\$ 629.6	\$ 676.2			7.4%	\$ 4,463.7	\$ 4,584.5		2.7%
Institutional Payments	10.1	11.8			16.8%	70.2	69.2		-1.4%
Liquor Transfers:									
Profits	3.5	3.5			0.0%	31.0	30.0		-3.2%
7% Gross Revenue	0.8	1.5			87.5%	9.0	9.0		0.0%
Interest	1.5	1.7			13.3%	30.6	23.0		-24.8%
Fees	13.4	11.1			-17.2%	65.4	64.5		-1.4%
Judicial Revenue	6.3	6.1			-3.2%	42.9	43.9		2.2%
Miscellaneous Receipts	9.3	8.7			-6.5%	58.1	48.6		-16.4%
Racing and Gaming Receipts	14.3	19.8			38.5%	60.0	60.0		0.0%
TOTAL RECEIPTS	\$ 688.8	\$ 740.4			7.5%	\$ 4,830.9	\$ 4,932.7		2.1%